

Message Text

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ACTION EB-03

INFO OCT-01 EA-07 ISO-00 OES-02 H-01 L-01 PM-03 SP-02

SS-14 SSO-00 INR-05 INRE-00 AS-01 /040 W

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O 130303Z FEB 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC IMMEDIATE 2695

C O N F I D E N T I A L JAKARTA 2017

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LIMDIS

EO 11652: GDS

TAGS: ENRG ID

SUBJECT: CALTEX:GOI DISCUSSIONS

REF: JAKARTA 1625

1. SUMMARY: DISCUSSIONS BETWEEN CALTEX AND GOI HAVE REACHED POSSIBLE CRITICAL STAGE. GOVERNMENT PUBLICLY COMMITTED TO CHANGE IN PROFIT SPLIT WHICH CALTEX SAYS WOULD CAUSE SUBSTANTIAL DROP IN INDONESIA'S OIL REVENUES. I AM SEEKING CLARIFICATION AND PLAN SUGGEST TO GOI THAT THEY RE-EXAMINE BASIS ON WHICH THEY ARE DEMANDING CHANGE. END SUMMARY.

2. I WAS VISITED FEBRUARY 12 BY FRED BOUCKE OF SOCAL AND ROBERT MCCALL OF TEXACO, CURRENTLY IN INDONESIA FOR DISCUSSIONS WITH GOI ON LATEST DEMAND FOR \$1.00 ADDITIONAL IN TAKE FROM CALTEX, RETROACTIVE TO JANUARY 1, 1976.

3. BOUCKE AND MCCALL SAID THEY HAD MET WITH MINISTER NATIONAL ECONOMY WIDJOJO AND HAD EXPLAINED CALTEX PROPOSAL FOR ADDITIONAL OFF TAKE TOGETHER WITH CALTEX PREDICTION THAT ANY CHANGE IN PROFIT SPLIT WOULD MEAN LESS REVENUE FOR INDONESIA. WIDJOJO TOLD THEM THAT POLITICAL CONSIDERATIONS NOW MADE IT DIFFICULT TO BACK OFF FROM
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DEMAND FOR ADDITIONAL DOLLAR. PRESIDENT IN BUDGET SPEECH

AND, MOST RECENTLY MINISTER OF MINING SADLI ON FEB. 11 BEFORE PARLIAMENT HAD REFERED TO SUBSTANTIAL OIL COMPANY PROFITS AND HAD PUBLICLY PROMISED CHANGE IN PROFIT SPLIT. IN SUBSEQUENT MEETING WITH WIDJOJO, CALTEX INDONESIA PRESIDENT TAHIJA WAS TOLD DOOR IS STILL OPEN A LITTLE FOR POSSIBLE COMPROMISE BUT WIDJOJO DID NOT SUGGEST APPROACH.

4. BOUCKE AND MCCALL PRESENTED TO PETROLEUM OFFICER AND ME CALTEX EXPLANATION OF NEED FOR ALRGER PROFIT SPLIT IN INDONESIA AND SAID "DIASTER" WOULD FOLLOW ANY INDONESIAN CHANGE IN CURRENT PROFIT SPLIT. MCCALL EXPLAINED THAT CALTEX WOULD REDUCE ITS OFF TAKE BY AS MUCH AS 61 MILLION BARRELS/YEAR, WOULD CEASE FURTHER EXPLORATION, THAT OTHER COMPANIES WOULD FOLLOW SUIT, AND THAT "THIS WOULD MEAN THE END OF INDONESIA'S OIL INDUSTRY." TWO REPS SAID THIS DECREASE IN PRODUCTION COULD COST INDONESIAN GOVERNMENT BETWEEN \$300 MILLION AND \$600 MILLION IN REVENUES.

5. WE REVIEWED FURTHER POLITICAL CIRCUMSTANCES, INCLUDING MAJOR IMPACT IN INDONESIAN THINKING OF MEMORANDUM BY IMF STAFFER THAT SET FORTH SUBSTANTIAL DIFFERENCES IN RPFIT RATES BETWEEN INDONESIA AND GULF. WHATEVER FACTS WERE, THIS MEMORANDUM HAD BEEN WIDELY CIRCULATED AND REFERRED TO AND NOT REAL REBUTTAL HAD BEEN SIMILARLY PRESENTED.

6. I TOLD BOUCKE AND MCCALL THAT I HEARD OIL COMPANIES PROMISE DIASTER ON MANY ACCOASIONS ONLY TO HAVE THEM LIVE WITH WHATEVER ULTIMATELY RESULTED IN CHANGED ARRANGEMENTS. I TRUSTED THEY WERE THOROUGHLY SERIOUS WHEN IN CONVERSATION WITH INDONESIAN THEY SPOKE OF DIRE CONSEQUENCES OF ANY CHAGE. IF NOT, THEIR CREDIBILITY AND OURS WOULD BE AT STAKE. THEY ASSURED ME THEY WERE.

7. I SAID I WOULD BE PREPARED TO EXPLORE SEPARATELY WITH WIJARSO AND WIDJOJO WHETHER IN THIE VIEW ANY COM-PROMISE WAS POSSIBLE. BOUCKE AND MCCALL SUGGESTED IF APPOINTMENT WITH PRESIDENT COULD BE OBTAINED, THAT I CONFIDENTIAL

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MIGHT ACCOMPANY THEM. I SAID I FELT I COULD BE MORE EFFECTIVE ACTING INDEPENDENTLY OF COMPANY REPRESENTATIVES. I SAID IT FELT IT MORE APPROPRIATE TO AVOID APPEARING TO ASSOCIATE MYSELF WITH COMPANY'S POSITION BUT IN SEPARATE CONVERSATIONS TO MAKE POINT THAT HERE SEEMED TO BE SERIOUS DISCREPANCY BETWEEN COMAPNY ANALYSIS OF ITS PROFIT SITUATION AND THAT OF GOVERNMENT OF INDONESIA. IN MATTER AS CRITICAL AS THIS TO FUTURE OF COUNTRY, I WOULD SUGGEST

THAT INDONESIA SHOULD TAKE FURTHER LOOK AT BASIS FOR THEIR CURRENT DEMANDS, SINCE PRESENT DEMANDS BASED ON THREE-PAGE MEMORANDUM BY IMF EXPERT, GOI MIGHT WISH THIRD PARTY SUCH AS IMF ITSELF OR IBRD TO MAKE FURTHER ANALYSIS OF SITUATION SINCE BOTH AGENCIES HAVE SUCH MAJOR STAKES IN INDONESIA. THEY AGREED THAT THIS MIGHT BE USEFUL APPROACH.

8 I HAVE ALREADY REQUESTED APPOINTMENTS WITH BOTH WIJARSO AND WIDJOJO AND WILL, UNLESS DEPARTMENT PERCEIVES OBJECTIONS, FOLLOW APPROACH ABOVE.

9. COMMENT: GOI, APPARENTLY ON BASIS OF MEMORANDUM FROM EXPERT SUPPLIED TO THEM BY IMF, HAS PAINTED ITSELF INTO CORNER. SO FAR AS WE KNOW, MEMORANDUM HAS NO STANDING WITH IMF AND ALL EXPERTS, INCLUDING WIJARSO, WHO HAVE EXAMINED IT ACKNOWLEDGE THAT AT BEST IT IS INCOMPLETE. GIVEN TREMENDOUS ISSUES AT STKE, IT WOULD BE TRAGIC IF GOI MOVED WITHOUT FURTHER ANALYSIS, THEY WILL OBVIOUSLY NOT ACCEPT COMPANY'S ASSESSMENT AS BEING OBJECTIVE, IN SUCH CASE, BEST COURSE WOULD SEEM TO BE FOR THEM TO TURN TO SOMEONE LIKE BERNIE BELL OF IBRD WHO KNOWS THEIR ECONOMY AND WHO REPRESENTS BANK WHICH HAS MAJOR INTEREST IN SUCCESS OF INDONESIA'S DEVELOPMENT. HOPEFULLY THIS APPROACH MIGHT ENABLE GOVERNMENT TO MEET POLITICAL PROBLEM BY ANNOUNCING THAT IT WAS SUBMITTING ALTERNATIVE APPROACHES FOR EXPERT REVIEW IN ORDER TO INSURE MAXIMUM OF BENEFIT TO INDONESIA.

10 IN SEPARATE FOLLOWING TELEGRAM, EMBASSY IS PRESENTING CALTEX ANALYSIS FOR INFORMATION AND COMMENT BY DEPARTMENT. IF SITUATION IS AS CRITICAL AS CALTEX SUGGESTS, ACTIVITY ON OUR PART SEEMS DESIRABLE BUT I WOULD LIKE TO BE ABSOLUTELY SURE THAT CALTEX ANALYSIS IS CORRECT.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 FEB 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JAKART02017
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760054-1068
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760252/aaaabswh.tel
Line Count: 155
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 76 JAKARTA 1625
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAY 2004 by greeneet>; APPROVED <16 SEP 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CALTEX:GOI DISCUSSIONS
TAGS: ENRG, ID, PERTAMINA, CALTEX
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006